ROSS
TRUSTEES

Students' Union Superannuation Scheme

Susan Andrews

Chair of Trustees

4th March 2020

I will cover:

- 7% Issue
  - Issue
  - Process
  - Response
  - Impact
- Valuation
- Ongoing Actions

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The Issue

← April 88	April 88 – Dec 93	Jan 94 →

7%

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The Process

- NUS Consultation
- Compromise
- Advice

7%

Response

- Impact
- Communication
- Non Consents / Non Responses

7%

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Costs

- The Pensions Regulator
- Friends Life

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Reminder of the Process

Covenant Issues

- Challenges
- NUS
- Failure of Union

Ongoing Actions

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At Retirement Options

- Trivial Communications
- Pension Increase Exchange
- Transfer Values
- Buyouts

Other Issues

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- BUFDG
- Disaffiliations
- Incorporation Window

SUSS Annual General Meeting 2020

Funding & Investment Strategy

Paul Hamilton &
Matt Tickle

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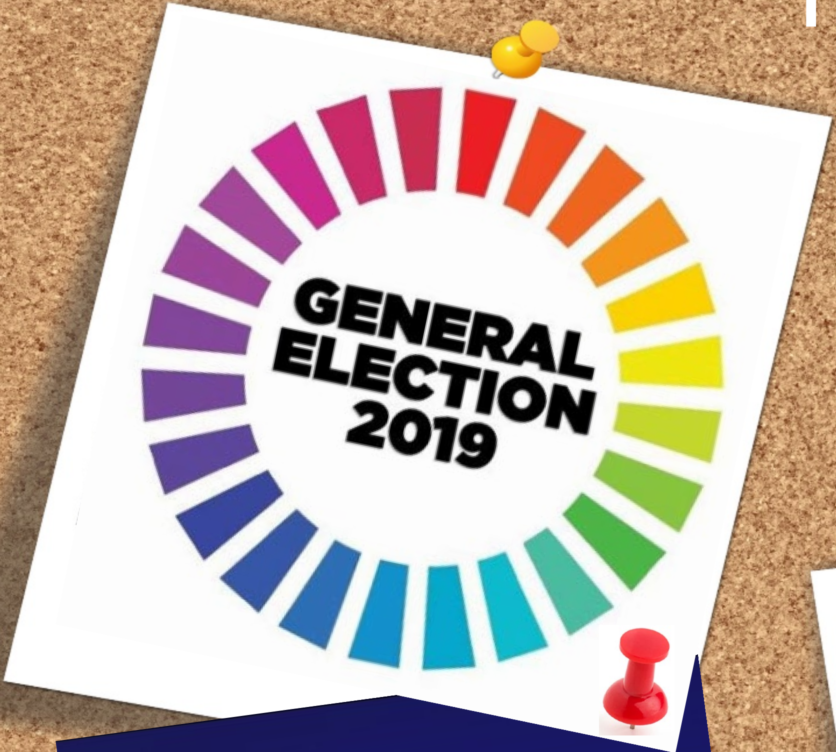
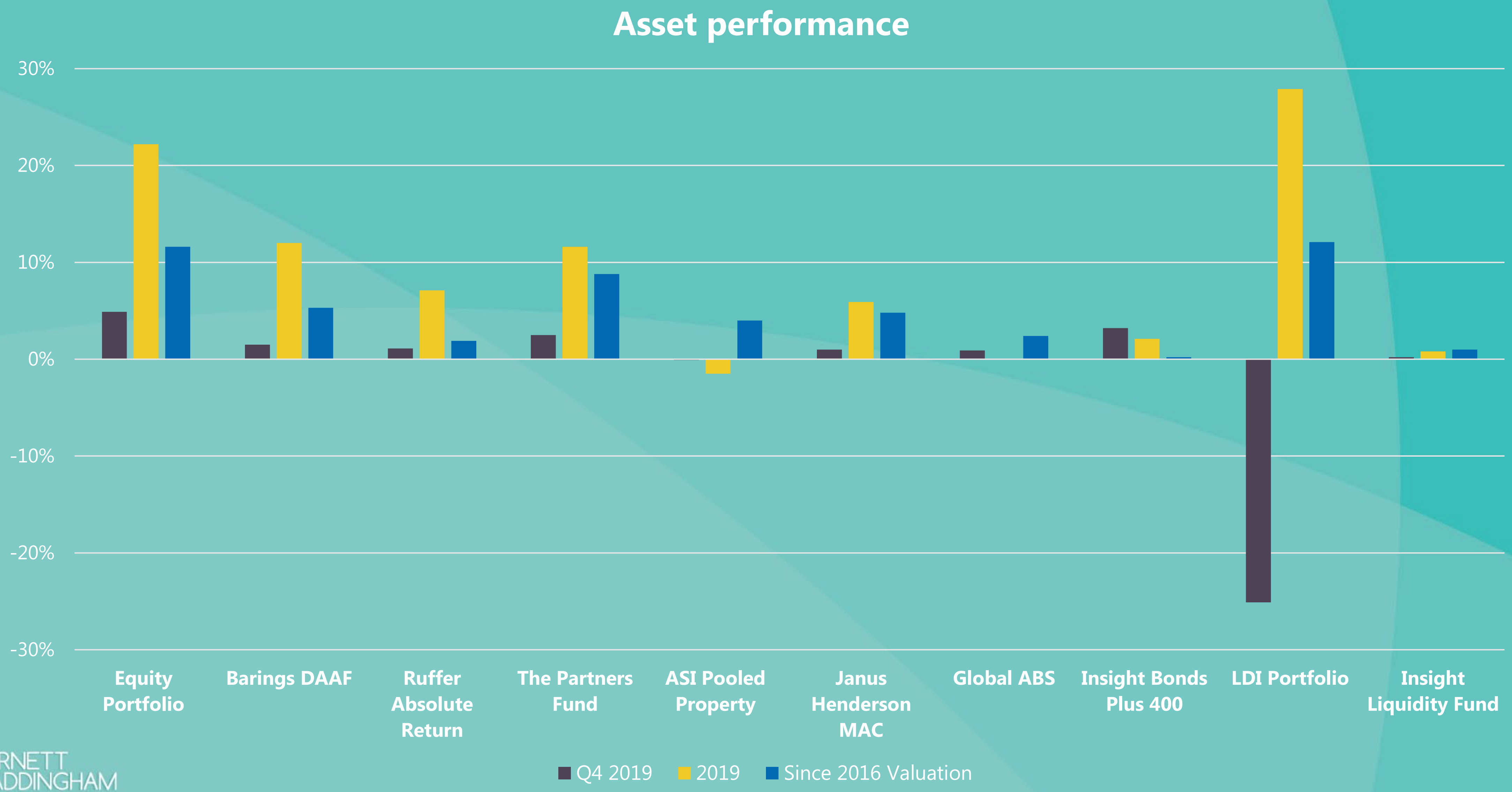
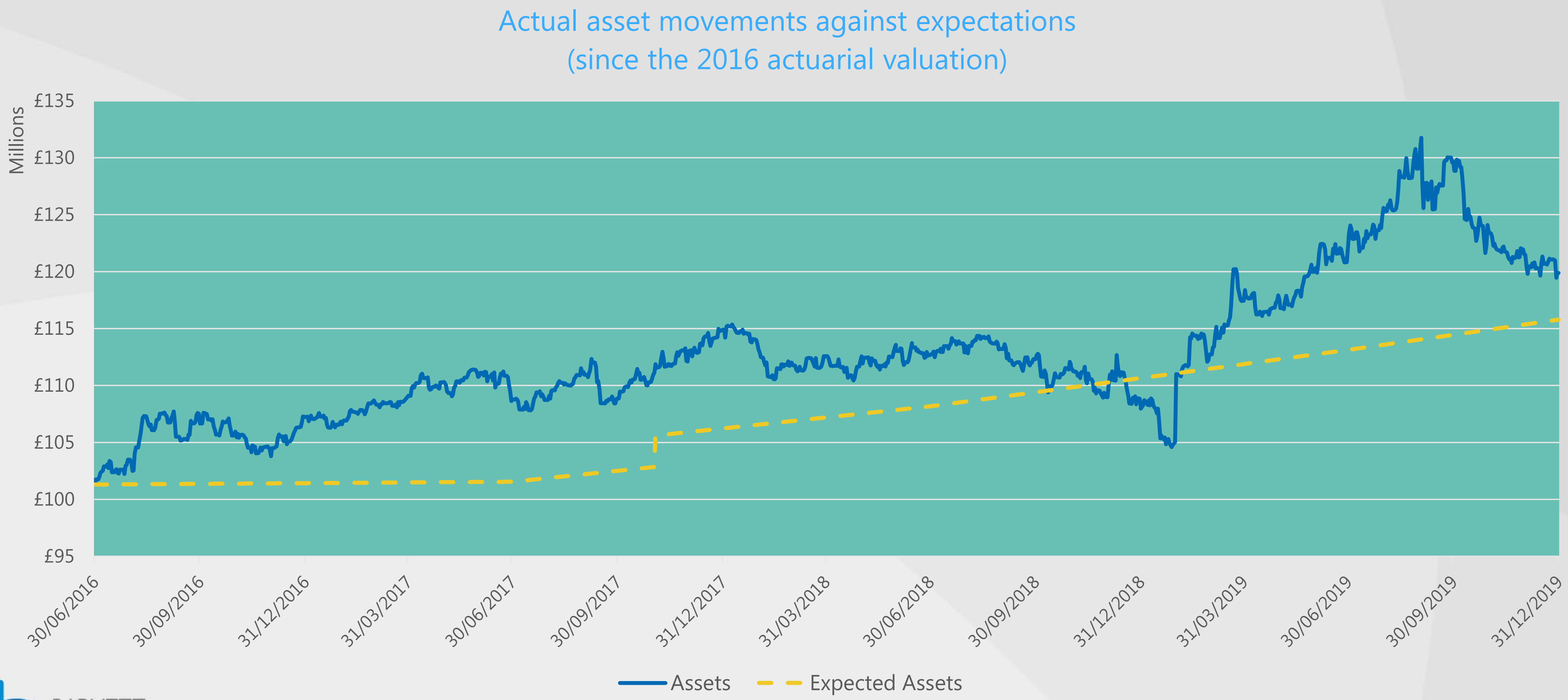
The year at a glance



How have the assets fared?



Monitoring the strategy – the outcome for assets



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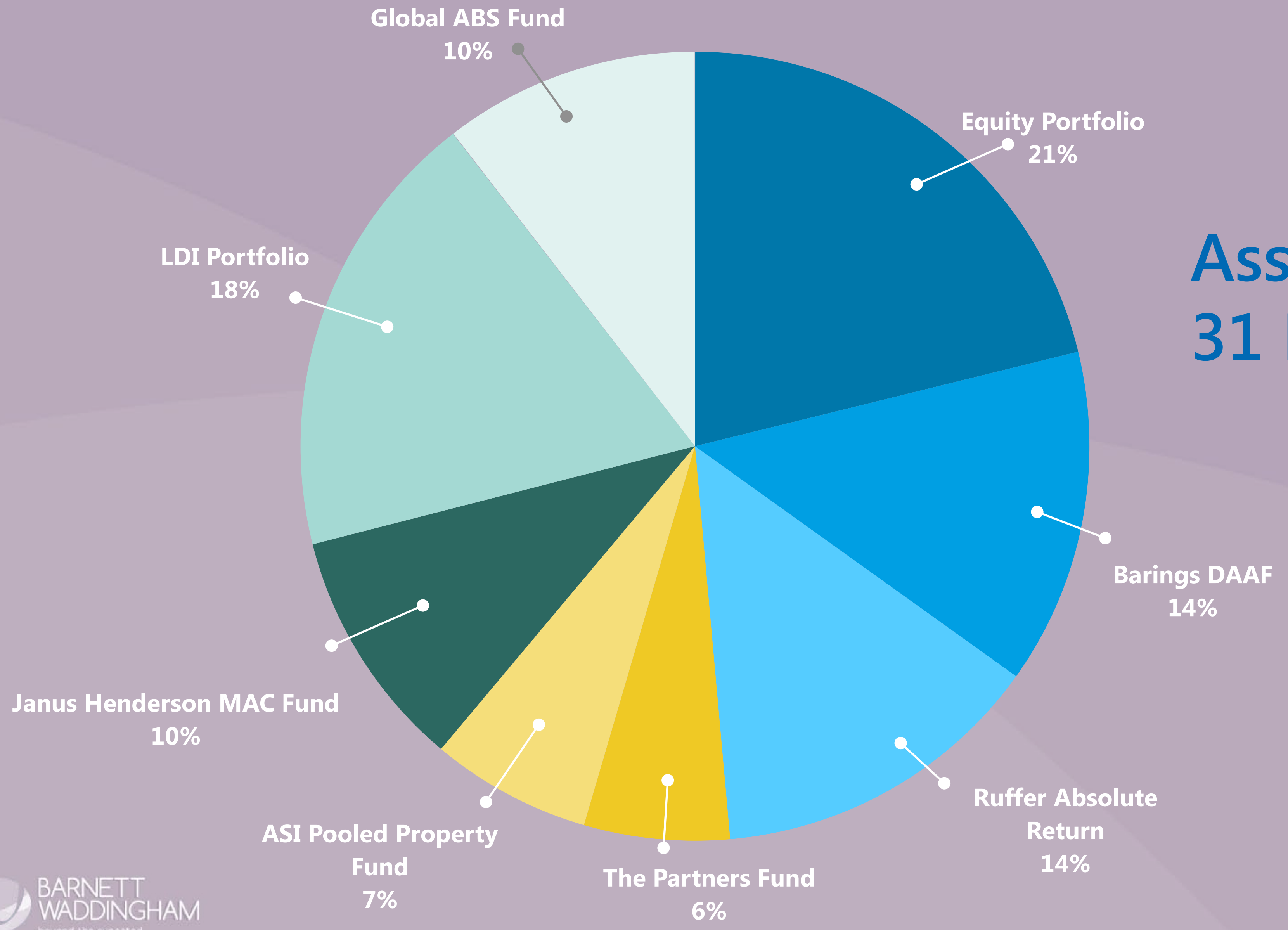
Asset allocation as at 31 December 2019



Monitoring Implementation Performance Scorecard

	2017 Performance	2018 Performance	2019 Performance	3 year performance
Barings (absolute return)				
Ruffer (absolute return)				
Henderson (Bonds)				
Legal & General (passive)				
Standard Life (property)				
Partners Fund				
Insight (LDI and bonds)				

Changes to the Portfolio

December 2019

Insight

- All holding in Bonds Plus 400 sold

Q2 2020

Aberdeen Standard

- Property Fund to be sold

Q2 2020

Ruffer

- Absolute Return Fund to be sold

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Changes to the Portfolio

Environmental, Social and Governance considerations

Diversified Growth

- ❖ Replacing Ruffer with a less defensive DGF manager
- ❖ Reviewing ESG credentials of new Fund as part of the process

Property

- ❖ Reviewing options to increase allocation to illiquid assets with proceeds of Property Fund disinvestment
- ❖ Reviewing ESG credentials of the new Fund as part of the process

Equity Portfolio

- ❖ Reviewing the opportunity of using Legal & General's Future World funds
- ❖ Part of a wider strategy to increase the focus on ESG issues where appropriate and available

Actuarial Valuation

2019 Valuation Results

£m	2016	2019
Assets	101.3	119.1
Liabilities (no 7% issue)	221.0	235.2
Deficit	119.7	116.1
Funding Level	46%	51%
Cost of 7%		24.8
Actual deficit		140.9
Actual funding level		46%

If there were no 7% issue…

- Deficit would reduced from £119.7m to £116.1m
- If recovery plan was on track, deficit should be £112.6m
- We are therefore 3% behind
  - This does include some benefit for reducing life expectancy allowance
- To keep same recovery plan end date would need an extra 3% from all
  - So an 8% increase in total
  - Current end date – 1 July 2033 (14 years)
- The Pensions Regulator working to reduce recovery periods
  - Currently 7 years on average
- Could have asked for a slightly higher increase and shortened the period?

Impact of 7% issue

- Original estimate of full cost of 7% issue was £47.8m
- True “full cost” was lower because:
  - We knew there was some caution in the estimate
  - Allowance for reduced life expectancy
  - We have done quite a lot of work to bring the number down
- Digging through the data has reduced the amount by around £2m
- Actual “full cost” of 7% exercise at valuation date would have been £33.5m

Compromise offer – scope for saving

- If everyone accepted the compromise offer, there would still be a cost of the 7% issue:
  - Not everyone was included (vunerable, unable to contact)
  - Accepting compromise doesn’t reduce cost to zero:
    - Pre 88 benefits get 7% either way
    - Pensioners get 7% to date
    - Give higher increases than original 3%
- Total scope for saving around £14m
  - Out of total of £33.5m

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Compromise offer – what happened?

- Members affected: 643
- Members written to: 567 (88% of affected members)
- Response received: 482 (85% of those written to)
- Accepted compromise: 392 (69% of those written to)

- Impact of compromise offer has been to reduce cost of 7% issue by £8.7m
- Overall impact of 7% issue therefore £24.8m
  - (£33.5m less £8.7m)

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Proposed impact on contributions

- Contributions allocated by liability, so unions affected by 7% issue bear the lion's share of the extra cost, BUT:
  - Not exact allocation
    - We do not keep track of "7% cost" as separate ring-fenced item
  - There is some cost for all in relation to orphans
  - We are planning to delay increasing contributions until 2021
- Starting point is 3% extra (so 8% total) increase in 2021
  - This is what unaffected unions pay
- Unions with members affected by 7% will see a higher increase in 2021
- Recovery plan end date extended to allow for "BUTs" above
  - (And to try to limit the impact on affected unions)

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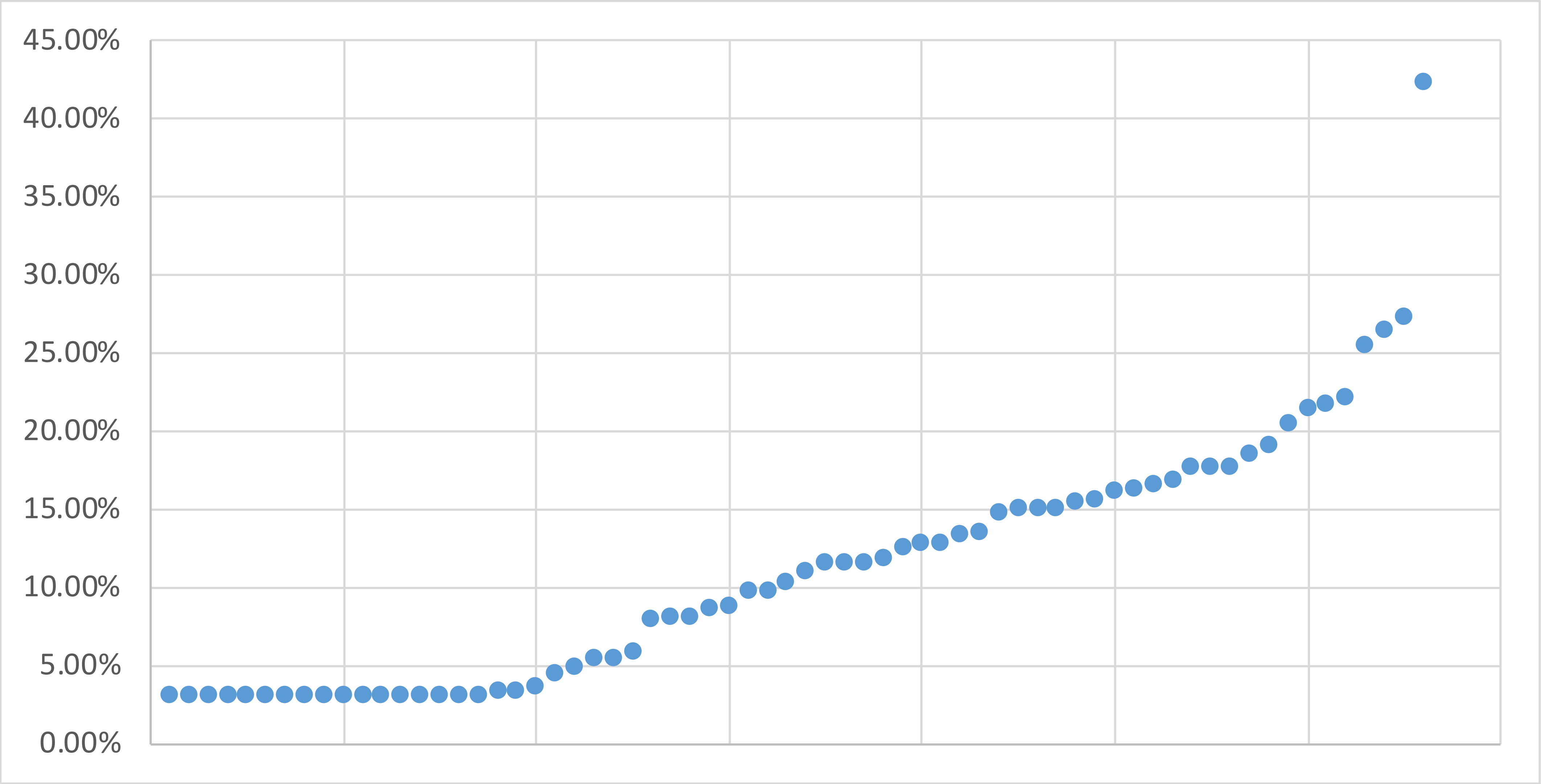
Proposed extra contributions from 2021 (on top of 5%)



What happens next

- Based on covenant analysis we hope contribution increases are manageable
  - Clearly some increases are large
- Delay to 2021 to give time to discuss with parent institutions
- Option to pay 3 years (from 2020) upfront again
  - Similar “discount” to last time
  - Exact amount will vary depending upon increase in 2021
- Will write to unions with their figures shortly
- Please let us know if increase is unmanageable
- Revised recovery plan end date 1 October 2035
  - 2 years and 3 months extra

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Transfer values

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Introduction

- Members can request a transfer of their benefits to another pension scheme
  - (Before retirement)
- Currently SUSS reduces the amount payable to reflect the underfunding in the scheme
  - Therefore no-one takes a transfer value
- Transfer values help the scheme
  - Reduced risk going forward
  - Reduction in deficit (even if unreduced transfer value paid)

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Offering unreduced transfer values

- Trustees of SUSS could:
  - Offer unreduced transfer values
  - Highlight transfer value option to members in retirement illustrations
- Only really works if Unions pay the shortfall upfront
  - Maybe only works if institutions happy to bring forward funding for this
  - Similar in concept to paying deficit contributions upfront
- Not without its complications:
  - Ensuring members make good choices
  - What if some unions agree and others do not?

Extreme (?) example

- If all a hypothetical Union's deferred pensioners chose to take a transfer value:
  - Top up required: £760,000
  - Deficit contributions reduce by £55,000 per annum
    - Around £1m over 14 years (ignoring interest)
- We could prepare details for unions of what the impact for them might be
  - Not all would transfer at the same time
  - How many are approaching retirement
- Is there any appetite to look into this further

Questions & Answers